

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Otsego County Road Commission	County Otsego
Fiscal Year End 12/31/2005	Opinion Date 5/3/06	Date Audit Report Submitted to State 6/20/06	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No written comments necessary		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number 989-563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Signature 	Printed Name James M. Anderson, CPA	License Number 1101017419		

Digitally signed by James M. Anderson, CPA  
DN: cn=James M. Anderson, CPA, c=US, o=James M. Anderson, P.C., email=jma@m33access.com  
Date: 2006.06.20 13:01:31 -0400

**OTSEGO COUNTY ROAD COMMISSION  
FINANCIAL REPORT  
DECEMBER 31, 2005**

**OTSEGO COUNTY**  
**BOARD OF COUNTY ROAD COMMISSIONERS**

Eugene S. Fleming  
Chairman

John R. Deming  
Vice Chairman

Donald R. Huff  
Member

Michael A. Roper  
Managing Director

Roberta M. Tholl  
Office Manager

# OTSEGO COUNTY ROAD COMMISSION

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## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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### INDEPENDENT AUDITOR'S REPORT

May 3, 2006

Board of County Road Commissioners  
Otsego County Road Commission  
Gaylord, MI 49734

I have audited the accompanying basic financial statements of the Otsego County Road Commission of the County of Otsego, Michigan as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

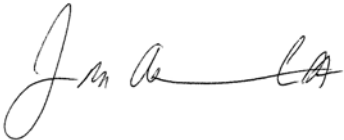
In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Otsego County Road Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 3, 2006, on my consideration of the Otsego County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Otsego County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "J M Anderson", with a stylized flourish at the end.

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

**OTSEGO COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS  
DECEMBER 31, 2005**

USING THIS ANNUAL REPORT

The Otsego County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question on whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

REPORTING THE ROAD COMMISSION'S MAJOR FUND

Our analysis of the road commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

**OTSEGO COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS (CONTINUED)  
DECEMBER 31, 2005**

THE ROAD COMMISSION AS A WHOLE

The road commission's **net** assets increased \$1,692,214 or approximately 11% for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net assets as of the year ended December 31, 2004 and 2005 follows:

	Governmental Activities	
	2004	2005
Current and Other Assets	\$ 2,179,921	\$ 2,465,585
Capital Assets (Less Depre.)	<u>14,038,354</u>	<u>15,534,130</u>
Total Assets	<u>16,218,275</u>	<u>17,999,715</u>
Current Liabilities	377,809	530,780
Other Liabilities	<u>259,324</u>	<u>195,579</u>
Total Liabilities	<u>637,133</u>	<u>726,359</u>
Net Assets		
Invested in Capital Assets	13,840,409	15,410,828
Unrestricted	<u>1,740,733</u>	<u>1,862,528</u>
Total Net Assets	<u>\$ 15,581,142</u>	<u>\$ 17,273,356</u>



**OTSEGO COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS (CONTINUED)  
DECEMBER 31, 2005**

A summary of changes in net assets for the year ended December 31, 2004 and 2005 follows:

	Governmental Activities	
	2004	2005
Program Revenues:		
Charges for Services (includes permits)	\$ 1,196,682	\$ 1,220,865
Federal Sources	386,610	611,100
State Sources	4,245,971	4,263,935
Contributions from local units	506,221	1,726,852
Interest Income	9,544	51,551
General Revenues:		
Gain on Disposal of Equipment	97,516	85,223
Other Miscellaneous Sources	<u>54,378</u>	<u>62,482</u>
Total Revenues	<u>6,496,922</u>	<u>8,022,008</u>
Program Expenses:		
Primary Roads:		
Maintenance	1,787,896	1,634,763
Local Roads:		
Maintenance	1,777,982	1,826,981
State Trunkline:		
Maintenance	1,198,580	1,213,346
Non-maintenance	105,778	4,181
Equipment Expense	(411,531)	(61,745)
Administrative	290,458	322,475
Infrastructure depreciation	1,789,854	1,374,043
Compensated Absences	5,471	10,898
Interest	<u>3,594</u>	<u>4,852</u>
Total Expenses	<u>6,548,082</u>	<u>6,329,794</u>
Increase (Decrease) in Net Assets	<u><u>\$ (51,160)</u></u>	<u><u>\$ 1,692,214</u></u>

**OTSEGO COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS (CONTINUED)  
DECEMBER 31, 2005**

THE ROAD COMMISSION'S FUND

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the general operations fund increased by \$132,693 as compared to an increase of \$41,864 in the fund balance for the year ended December 31, 2004 (last year). Total revenues were \$8,022,008, an increase of \$1,525,086 as compared to last year. This change in revenues resulted primarily from funding for several projects by Category A State funds and an increase in Township participation in the cost share.

Total expenditures were \$7,889,315, an increase of \$1,206,184, as compared to last year. This change in expenditures is primarily due to the additional projects taken on by the road with the funding mentioned in the previous paragraph.

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue budget for 2005 was lower than the actual receipts by \$967,910. This is primarily from the grant funds passed through the townships.

Road Commission expenditures were projected as \$7,054,098 while actual expenditures were \$7,889,315. This resulted in total expenditures being over budget by \$835,217. This is primarily due to the additional projects funded with State and Township contributions and non-negotiated MDOT projects.

**OTSEGO COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS (CONTINUED)  
DECEMBER 31, 2005**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2005 (year end), the road commission had \$15,534,130 invested in capital assets as follows:

	<u>2004</u>	<u>2005</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 154,971	\$ 159,391
Other Capital Assets		
Buildings and Improvements	2,995,570	2,999,960
Road Equipment	4,951,933	4,944,149
Other Equipment	210,123	189,200
Infrastructure and Improvements	<u>22,141,682</u>	<u>25,279,662</u>
Total Capital Assets at Historic Cost	30,454,279	33,572,362
Total Accumulated Depreciation	<u>(16,415,925)</u>	<u>(18,038,232)</u>
Total Net Capital Assets	<u>\$ 14,038,354</u>	<u>\$ 15,534,130</u>

Current year's major additions included the following:

Salt Shed	\$ 442,446	\$ -0-
Various Projects (Primary and Local)	\$ 1,433,901	\$ 3,137,980
Trucks/Equipment	\$ 503,080	\$ 258,772

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The road commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Otsego County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interests of the motoring public and the citizens of Otsego County.

**OTSEGO COUNTY ROAD COMMISSION  
MANAGEMENTS'S DISCUSSION & ANALYSIS (CONTINUED)  
DECEMBER 31, 2005**

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Otsego County Road Commission administrative offices at 669 W. McCoy Road, P.O. Box 537, Gaylord MI 49734-0537.

OTSEGO COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

**ASSETS**

Cash and Investments	\$ 1,006,936
Accounts receivable	
Due from other governmental units	827,579
Inventories	631,070
Capital Assets (Net of Accumulated Depreciation)	<u>15,534,130</u>
Total Assets	<u>17,999,715</u>

**LIABILITIES**

Current Liabilities	
Accounts payable	105,734
Accrued liabilities	92,137
Advances from MDOT	332,909
Non Current Liabilities	
Equipment Installment Loan	123,302
Vested Employee Benefits Payable	<u>72,277</u>
Total Liabilities	<u>726,359</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	15,410,828
Restricted for County Roads	<u>1,862,528</u>
Total Net Assets	<u>\$ 17,273,356</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

Program Expenses	
Primary Road Maintenance	\$ 1,634,763
Local Road Maintenance	1,826,981
State Trunkline Maintenance	1,217,527
Net Equipment Expense	(61,745)
Net Administrative Expense	322,475
Infrastructure Depreciation	1,374,043
Compensated Absences	10,898
Interest Expense	<u>4,852</u>
Total Program Expenses	<u>6,329,794</u>
Program Revenue	
Federal Grants	611,100
State Grants	4,263,935
Contributions from Local Units	1,726,852
Charges for Services	1,220,865
Investment Earnings	<u>114,033</u>
Total Program Revenue	<u>7,936,785</u>
Net Program Revenue	<u>1,606,991</u>
General Revenue	
Gain (Loss) on Equipment Disposal	<u>85,223</u>
Total General Revenues	<u>85,223</u>
Change in Net Assets	1,692,214
Net Assets	
Beginning of Year	<u>15,581,142</u>
End of Year	<u><u>\$ 17,273,356</u></u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION  
BALANCE SHEET  
DECEMBER 31, 2005

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Cash demand and investments	\$ 1,006,936
Accounts receivable:	
Due from other governmental units	827,579
Inventories	<u>631,070</u>
Total Assets	<u><u>\$ 2,465,585</u></u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 105,734
Accrued liabilities	92,137
Advances from governmental units	<u>332,909</u>
Total Liabilities	<u>530,780</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>1,934,805</u>
Total Fund Equity	<u>1,934,805</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,465,585</u></u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Total governmental fund balance	\$ 1,934,805
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Amounts reported for governmental activities in  
the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,534,130
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(195,579)</u>
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Net assets of governmental activities	<u>\$ 17,273,356</u>
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See accompanying notes to the financial statements.



OTSEGO COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
DECEMBER 31, 2005

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 611,100
State Grants	4,263,935
Contributions From Local Units	1,545,871
Charges for Services	1,197,439
Interest and Rents	114,034
Other Revenue	<u>289,629</u>
Total Revenues	<u>8,022,008</u>
Expenditures	
Public Works	8,066,043
Net Capital Outlay	(256,223)
Debt Service	<u>79,495</u>
Total Expenditures	<u>7,889,315</u>
Excess of Revenues Over (Under) Expenditures	132,693
Fund Balance-January 1, 2005	<u>1,802,112</u>
Fund Balance-December 31, 2005	<u><u>\$ 1,934,805</u></u>

See accompanying notes to the financial statements.



OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Otsego County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Otsego County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Otsego, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunkline and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Otsego County Road Commission, a discretely presented component unit of Otsego County, and include the basic financial statements of the Road Commission

BASIS OF PRESENTATION-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Otsego County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) changes to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less within acquired. Investments are stated at fair value.

INVENTORY - Inventories consisting of equipment parts and supplies of \$165,100 and road materials of \$465,970, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Otsego County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Otsego County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

ADVANCES FROM THE STATE OF MICHIGAN - The State of Michigan advances funds on a State maintenance agreement it has with the Otsego County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE B - CASH AND INVESTMENTS

Michigan compiled Laws 129.91, authorizes the Road Commission to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Imprest Cash	\$ 5,300
Investments	<u>1,001,636</u>
Total	<u>\$1,006,936</u>

Deposits

At year-end the carrying amount of the County Road Commissions deposits included in the imprest cash account were \$5,100 and the bank balance was \$76,632. According to the Federal Deposit Insurance Corporation, approximately 100% of the total bank balance was covered by federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to municipal money markets.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of December 31, 2005, the Road Commission had the following investments:

	<u>Reported Amount (Fair Value)</u>
Investments	
Fifth Third Securities Inc.	<u>\$ 1,001,636</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual fund does not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amounts that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.



OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/05</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 154,971	\$ 4,420	\$ -0-	\$ 159,391
Subtotal	<u>154,971</u>	<u>4,420</u>	<u>-0-</u>	<u>159,391</u>
Capital Assets Being Depreciated:				
Buildings	2,995,570	4,390	-0-	2,999,960
Road Equipment	4,951,933	258,772	266,556	4,944,149
Shop Equipment	109,843	3,062	20,493	92,412
Office Equipment	77,874	748	4,240	74,382
Engineers Equipment	15,846	-0-	-0-	15,846
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Depletable Assets	4,760	-0-	-0-	4,760
Traffic Signals	44,756	-0-	-0-	44,756
Infrastructure-Bridges	805,533	-0-	-0-	805,533
Infrastructure-Roads	<u>21,291,393</u>	<u>3,137,980</u>	<u>-0-</u>	<u>24,429,373</u>
Total	<u>30,299,308</u>	<u>3,404,952</u>	<u>291,289</u>	<u>33,412,971</u>
Less Accumulated Depreciation:				
Buildings	870,995	72,040	-0-	943,035
Road Equipment	3,806,588	417,375	229,938	3,994,025
Shop Equipment	81,263	7,556	19,434	69,385
Office Equipment	64,568	4,817	4,240	65,145
Engineers Equipment	15,758	88	-0-	15,846
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Traffic Signals	8,157	2,984	-0-	11,141
Infrastructure-Bridges	153,291	27,922	-0-	181,213
Infrastructure-Roads	<u>11,413,505</u>	<u>1,343,137</u>	<u>-0-</u>	<u>12,756,642</u>
Total	<u>16,415,925</u>	<u>1,875,919</u>	<u>253,612</u>	<u>18,038,232</u>
Net Capital Assets Being Depreciated	<u>13,883,383</u>	<u>1,529,033</u>	<u>37,677</u>	<u>15,374,739</u>
Total Net Capital Assets	<u>\$14,038,354</u>	<u>\$ 1,533,453</u>	<u>\$ 37,677</u>	<u>\$15,534,130</u>

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE D - PENSION PLAN

DEFINED BENEFIT PENSION PLAN

Plan Description - The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the tax payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 2004. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 3,309,527
Terminated employees not yet receiving benefits	113,924
Current Employees:	
Accumulated employees contributions including	
Allocated investment income	69,981
Employer financed	<u>3,716,156</u>
Total actuarial accrued liability	7,209,588
Net assets available for benefits, at actuarial value	
(Market value is \$5,570,512)	<u>5,706,795</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,502,793</u>

GASB 27 INFORMATION (as of 12/31/04)

Fiscal year beginning	January 1, 2006
Annual required contribution (ARC)	\$ 216,900
Amortization factor used	0.053632

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE D RETIREMENT PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 169,068	100%	\$ -0-
2003	195,468	100%	-0-
2004	216,904	100%	-0-

The Road Commission was required to contribute \$195,468 for the year ended December 31, 2005. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2002	\$ 5,304,571	\$ 6,320,484	\$ 1,015,913	84%	\$ 1,492,215	68%
2003	5,493,694	6,783,459	1,289,765	81%	1,568,776	82%
2004	5,706,795	7,209,588	1,502,793	79%	1,639,489	92%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, 2002, and 2004 valuations.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005  
(CONTINUED)

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
General Obligation:				
Equipment Installment Loan	\$ 197,945	\$ -0-	\$ 74,643	\$ 123,302
Compensated absences	61,379	(1) 10,898	-0-	72,277
Total	<u>\$ 259,324</u>	<u>\$ 10,898</u>	<u>\$ 74,643</u>	<u>\$ 195,579</u>

(1) The change in compensated absences is shown as a net addition.

The Road Commission entered into an installment loan with Fifth Third Bank for the purchase of three International trucks on July 6, 2004. The initial debt was \$228,073 with interest accruing at 2.92%. The equipment installment agreement requires 36 payments of \$6,624.60 per month with the final payment due on July 6, 2007.

Annual Debt Service Requirements:	Principal	Interest	Total
2006	\$ 77,010	\$ 2,485	\$ 79,495
2007	46,292	81	46,373
Totals	<u>\$ 123,302</u>	<u>\$ 2,566</u>	<u>\$ 125,868</u>

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2005 at current wage rates amounted to \$72,277 and is reflected in the Long-Term Debt Group. Sick leave is not vested and accordingly is not accrued.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE G - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2005 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy maintenance	\$ 1,865,784	\$ 2,755,561	\$ (889,777)
Local Road:			
Maintenance	\$ 1,804,219	\$ 1,826,981	\$ (22,762)
Equipment Expense - Net	\$ (123,638)	\$ (61,745)	\$ (61,893)
Long-Term Debt Payments	\$ 74,635	\$ 74,643	\$ (8)

NOTE H - RISK MANAGEMENT

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Otsego Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

At December 31, 2005, there were no claims which exceeded insurance coverage. The Road Commission had no significant reduction in insurance coverage from the previous years.

OTSEGO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

NOTE I - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal revenue of \$611,100 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE J - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note D, the County Road Commission provides post retirement health care benefits, payment of Blue Cross health premiums, to 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$221,144 for the year ended December 31, 2005.

## **REQUIRED SUPPLEMENTAL INFORMATION**



OTSEGO COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -  
BUDGETARY COMPARISON SCHEDULE  
TWELVE MONTHS ENDED DECEMBER 31, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$	\$	\$ 2,214,948	\$
Local road			1,313,010	
Snow removal			241,640	
Engineering			<u>10,000</u>	
Subtotal	<u>(1)3,600,000</u>	<u>(1)3,891,977</u>	<u>3,779,598</u>	<u>(112,379)</u>
Federal Aid:				
Federal aid secondary	520,000	571,590	611,100	39,510
State Aid:				
State Forest Road Funds	-0-	-0-	85,110	85,110
EDF - Target Industries	490,000	490,000	399,227	(90,773)
State Trunkline Maintenance	1,300,000	1,169,098	1,197,439	28,341
County Raised Funds:				
Township contributions and other contributions	790,753	835,905	1,726,852	890,947
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	85,223	85,223
Interest, Salvage Sales, Permits and Refunds	<u>153,000</u>	<u>95,528</u>	<u>137,459</u>	<u>41,931</u>
Total Revenue	<u>\$ 6,853,753</u>	<u>\$ 7,054,098</u>	<u>\$ 8,022,008</u>	<u>\$ 967,910</u>

(1) Budgeted in Total

OTSEGO COUNTY ROAD COMMISSION  
STATEMENT OF EXPENDITURES -  
BUDGETARY COMPARISON SCHEDULE  
TWELVE MONTHS ENDED DECEMBER 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 1,595,325	\$ 1,865,784	\$ 2,755,561	\$ (889,777)
Maintenance	1,800,000	1,699,209	1,622,825	76,384
Local Road:				
Heavy maintenance	510,932	413,478	382,419	31,059
Maintenance	1,860,000	1,804,219	1,826,981	(22,762)
Subtotal	5,766,257	5,782,690	6,587,786	(805,096)
State Trunkline Maintenance	1,350,000	1,222,890	1,217,527	5,363
Equipment Expense - Net:				
Direct	990,000	949,400	978,527	(29,127)
Indirect	440,000	435,379	429,383	5,996
Operating	280,000	289,471	274,254	15,217
Less:				
Equipment Rental	(2,000,000)	(1,797,888)	(1,743,909)	(53,979)
Subtotal	(290,000)	(123,638)	(61,745)	(61,893)
Administrative Expense - Net:				
Administrative expense			438,817	
Less:				
Overhead - State				
trunkline			(115,868)	
Purchase discounts and				
Handling Charges			(474)	
Subtotal	(1) 310,000	(1) 340,898	322,475	18,423
Capital Outlay - Net:				
Capital Outlay	238,000	262,114	266,972	(4,858)
Less:				
Depreciation	(600,000)	(510,352)	(485,518)	(24,834)
Equipment retirements	-0-	-0-	(37,677)	37,677
Subtotal	(362,000)	(248,238)	(256,223)	7,985
Long-Term Debt Payments	74,721	74,635	74,643	(8)
Interest Expenditures	4,775	4,861	4,852	9
Total Expenditures	\$ 6,853,753	\$ 7,054,098	\$ 7,889,315	\$ (835,217)

(1) Budgeted in total

## **SUPPLEMENTAL SCHEDULES**

OTSEGO COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES OF FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 4,588,135	\$ 1,832,771	\$ 1,601,102	\$ 8,022,008
Total Expenditures	<u>4,561,677</u>	<u>2,289,593</u>	<u>1,038,045</u>	<u>7,889,315</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	26,458	(456,822)	563,057	132,693
Optional Transfers / Adjustments	<u>(407,487)</u>	<u>456,822</u>	<u>(49,335)</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	(381,029)	-0-	513,722	132,693
Fund Balance - January 1	<u>1,258,355</u>	<u>-0-</u>	<u>543,757</u>	<u>1,802,112</u>
Fund Balance - December 31	<u><u>\$ 877,326</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 1,057,479</u></u>	<u><u>\$ 1,934,805</u></u>

OTSEGO COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Primary road	\$ 2,214,948	\$ -0-	\$ -0-	\$ 2,214,948
Local road	-0-	1,313,010	-0-	1,313,010
Snow removal	-0-	241,640	-0-	241,640
Engineering	5,876	4,124	-0-	10,000
Subtotal	<u>2,220,824</u>	<u>1,558,774</u>	<u>-0-</u>	<u>3,779,598</u>
Federal Aid:				
Federal Aid Secondary	611,100	-0-	-0-	611,100
State Aid:				
EDF - Target Industries	399,227	-0-	-0-	399,227
State Forest Road Funds	82,124	2,986	-0-	85,110
State Trunkline Maintenance	-0-	-0-	1,197,439	1,197,439
County Raised Funds:				
Township contributions and other contributions	1,274,860	271,011	180,981	1,726,852
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	85,223	85,223
Interest, Salvage Sales, Permits and Refunds	-0-	-0-	137,459	137,459
Total Revenue	<u>\$ 4,588,135</u>	<u>\$ 1,832,771</u>	<u>\$ 1,601,102</u>	<u>\$ 8,022,008</u>

OTSEGO COUNTY ROAD COMMISSION  
ANALYSIS OF EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 2,755,561	\$ -0-	\$ -0-	\$ 2,755,561
Maintenance	1,622,825	-0-	-0-	1,622,825
Local Road:				
Heavy maintenance	-0-	382,419	-0-	382,419
Maintenance	-0-	1,826,981	-0-	1,826,981
Subtotal	4,378,386	2,209,400	-0-	6,587,786
State Trunkline Maintenance	-0-	-0-	1,217,527	1,217,527
Equipment Expense - Net:				
Direct	491,807	443,075	43,645	978,527
Indirect	215,808	194,424	19,151	429,383
Operating	137,840	124,182	12,232	274,254
Less:				
Equipment Rental	(876,488)	(789,639)	(77,782)	(1,743,909)
Subtotal	(31,033)	(27,958)	(2,754)	(61,745)
Administrative Expense - Net:				
Administrative expense	291,647	147,170	-0-	438,817
Less:				
Overhead - State trunkline	(77,008)	(38,860)	-0-	(115,868)
Purchase discounts and Handling charges	(315)	(159)	-0-	(474)
Subtotal	214,324	108,151	-0-	322,475
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	266,972	266,972
Less:				
Depreciation	-0-	-0-	(485,518)	(485,518)
Equipment retirements	-0-	-0-	(37,677)	(37,677)
Subtotal	-0-	-0-	(256,223)	(256,223)
Long-Term Debt Payments	-0-	-0-	74,643	74,643
Interest Expense	-0-	-0-	4,852	4,852
Total Expenditures	<u>\$ 4,561,677</u>	<u>\$ 2,289,593</u>	<u>\$ 1,038,045</u>	<u>\$ 7,889,315</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

May 3, 2006

Board of County Road Commissioners  
Otsego County Road Commission  
Gaylord, MI 49734

I have audited the financial statements of the Otsego County Road Commission as of and for the year ended December 31, 2005, and have issued my report thereon dated May 3, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Otsego County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

MEMBER MACPA and AICPA

Compliance

As part of obtaining reasonable assurance about whether the Otsego County Road Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT